LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
http://www.in.gov/legislative

FISCAL IMPACT STATEMENT

LS 6282 | **NOTE PREPARED:** Feb 24, 2008
BILL NUMBER: SB 19 | **BILL AMENDED:** Feb 21, 2008

SUBJECT: Various Tax Matters.

FIRST AUTHOR: Sen. Kenley | **BILL STATUS:** CR Adopted - 2nd House
FIRST SPONSOR: Rep. Austin

FUNDS AFFECTED: X GENERAL | **IMPACT:** State & Local
X DEDICATED
FEDERAL

Summary of Legislation: (Amended) This bill has the following provisions:

Tax Abatements - This bill permits minimum valuation adjustments for personal Property Tax abatements only for tax abatements for which a statement of benefits was initially approved after December 31, 2005.

Sales Tax Exemption for Media Production - This bill extends the media production Sales Tax exemption until January 1, 2012.

Sales Tax on Flying Lessons - This bill provides that a person taking flying lessons pays Sales Tax on the rental of the plane but not for the flight instructor's costs.

Electronic Filing of Certain Sales Tax Returns - This bill requires sales tax returns to be filed on a monthly basis even if the taxpayer files using electronic funds transfer (EFT). It increases the sales tax filing threshold so that if the annual liability is less than $1,000, the taxpayer files only an annual return (instead of a monthly, quarterly, or semiannual return).

529 Education Savings Plan - This bill provides that if a taxpayer makes a nonqualified withdrawal from a college choice education plan and is a nonresident who has no current tax liability, the Department of State Revenue (DOR) shall bill the taxpayer for the amount of any tax credit to be recaptured. It amends the definition of "qualified withdrawal" for purposes of the tax credit for contributions to Indiana's College Choice 529 Education Savings Plan.

New Markets Development Credit - This bill establishes a New Markets Development Credit against state tax liability for investments that qualify for a Federal New Markets Tax Credit.

Repeal of Tax Preparer Electronic Filing Requirements - This bill repeals the current statutory requirement that professional tax preparers file persons returns in electronic format when the prepare is filing more than 100 returns in a calendar year.

Income Tax Withholding - This bill requires wage withholding payments and estimated tax payments for nonresident aliens to be computed based on the application of not more than one personal exclusion. It requires employers to report to the DOR the amount of withholdings attributable to local income taxes each time the employer remits to the DOR the tax that is withheld. The bill also requires an individual filing an estimated tax return to designate the portion of the estimated tax payment that represents state income tax liability and the portion of the estimated tax payment that represents local income tax liability. It provides that if an individual requests the payor of a distribution to withhold taxes from the distribution, the individual must designate the portion of the withheld amount that represents state income tax liability and the portion of the withheld amount that represents local income tax liability. It also requires the DOR and the Office of Management and Budget (OMB) to develop certain reports related to local option income taxes.

Earned Income Tax Credit - This bill reduces the state Earned Income Tax Credit for partial year nonresidents who have taxable income in other states.

Cigarette Tax - This bill requires a cigarette distributor to be current in all listed taxes before a distributor's license may be issued or renewed. It requires cigarette tax payments via EFT if the distributor purchases the stamps on credit.

Tax Confidentiality - This bill permits the DOR to disclose information concerning taxpayers to state and local law enforcement officials in Indiana when used for official purposes and requested by the proper authorities.

Tax Penalties - This bill imposes a penalty on certain individuals for failure to file an income tax return. It provides that the penalties for bad checks issued to pay listed taxes also apply to payments made by credit card and electronic payments. It imposes a penalty on certain individuals for failure to file an income tax return. It also provides that the penalties for bad checks issued to pay listed taxes also apply to payments made by credit card, debit card, and electronic payments.

Utility Services - This bill clarifies legislative intent that for purposes of the Utility Receipts Tax, a sale of utility services is considered a wholesale sale if the utility services are natural gas and the buyer consumes the natural gas in the direct production of electricity to be sold by the buyer.

LOIT Distribution Information - This bill requires the OMB to submit an informative summary of certain calculations related to the certified distribution of local income taxes to the county council and requires certain information to be included in the informative summary.

IndyGo COIT Allocation - The bill provides that a public transportation corporation located in a county having a consolidated city may receive each year, at the election of the public transportation corporation, 3% of the county's certified distribution of county option income tax revenue for the year.

School Allocation Area Distribution of Certain LOIT Revenues - This bill also allows counties to distribute revenue from certain local option income taxes to school allocation area accounts to be used for any of the following purposes: (1) Replacing the county's revenues reduced as a result of circuit breaker credits. (2) If a county replaces all revenues described in (1), then a county may allocate additional revenue to be applied at a uniform rate to reduce property taxes levied by the county. (3) To fund property tax relief, including replacement of revenues reduced as a result of the application of the credits for excessive property taxes, in any: (A) school corporation; or (B) civil taxing unit, other than the county, within the school allocation area; as determined by the county council.

Transit Development Districts - This bill establishes the Regional Transportation Authority Formation Fund. It provides that a county, city, or town located within a regional transit authority may establish a transit development district to improve transportation infrastructure within the transit development district. The bill also provides that a transit development district captures a part of the sales taxes collected in the transit development district. It requires the fiscal body of the unit establishing a transit development district to appropriate the captured revenues to the regional transit authority. The bill requires a regional transit authority to distribute 25% of any funds received from a transit development district to the regional transportation authority formation fund. The bill also provides the fund shall be administered by the Indiana Department of Transportation. It requires the money in the fund to be used to make matching grants of up to 20% of the costs incurred by a county or municipality in establishing a regional transportation authority. It also provides that under certain circumstances, all information concerning the purchase of a vehicle must be completed on the certificate of title, and that the knowing or intentional failure to do so is a Class A misdemeanor for the first violation and a Class D felony for the second and any subsequent violation.

Economic Development Project District in Warrick County - This bill authorizes Warrick County to establish an economic development project district. It provides that the Indiana Economic Development Corporation (IEDC) performs the duties of the State Board of Finance when establishing an economic development project district for the county. It also increases the term of bonds and leases for an economic development district from 20 to 25 years.

Police Officers' and Firefighters' Pension and Disability Fund - This bill authorizes a member of the 1977 Fund to purchase under certain conditions up to two additional years of service credit for active duty military service.

Automated Transit District Statute - This bill repeals the automated transit district statute.

Property Tax Exemptions and Appeals - This bill allows certain nonprofit limited liability companies to claim property tax exemptions for prior years. It authorizes a property tax levy appeal to the Department of Local Government Finance (DLGF) by certain fire protection districts that have experienced growth.

For property taxes first due and payable in 2007, this bill allows a civil taxing unit or school corporation to file a late excessive levy appeal based on a revenue shortfall that resulted from erroneous assessed valuation figures. If an appeal is allowed, provides that the following do not apply in the county: (1) the deadline for the DLGF to certify budgets, tax rates, and tax levies; (2) the deadline for mailing tax statements; and (3) the standard tax due dates.

Department of Natural Resources - The bill requires the Department of Natural Resources (DNR) to equalize the salaries of district foresters and natural science managers.

IPFW Student Services and Library Complex - This bill authorizes Indiana University, Purdue University at Fort Wayne (IPFW) to issue bonds for a student services and library complex provided that the bond principal, debt service reserves, credit enhancement, or other costs incidental to issuing the bonds does not exceed $16,000,000. It provides that the bonding authority authorized by this amendment is in addition to any bonding authority for the IPFW student services and library complex granted by the 2007-2009 budget bill.

Study Commissions - The bill changes the due date for the report of the Commission on Disproportionality in Youth Services to the Governor and the Legislative Council from August 15, 2008, to October 15, 2008.

Motor Vehicles - This bill provides that under certain circumstances, certain motor vehicles titled outside of Indiana do not need an inspection for an Indiana title to be issued. It also provides that a person who engages in the business of selling at least 12 off-road vehicles to the general public each year for delivery in Indiana must secure a dealer's license for the sale of motor vehicles from the Secretary of State. The bill repeals language exempting a seller of off-road vehicles from the requirements of a motor vehicle dealer's license.

Effective Date: (Amended) January 1, 2001 (retroactive); January 1, 2007 (retroactive); January 1, 2008 (retroactive); July 1, 2008; January 1, 2009; Upon passage.

Explanation of State Expenditures: (Revised) *Summary of DOR Expenditures* - It is estimated that this bill will increase administrative costs for the DOR . All of these provisions will require the DOR to amend forms, rules and procedures related to administration of the corporate and individual Adjusted Gross Income (AGI) taxes, the Sales Tax, the Financial Institutions Tax, the Utility Receipts Tax, and the Cigarette Tax. It is estimated that these increased costs will not be sufficiently offset by the administrative costs savings resulting from provisions in the bill. Expenditures would be subject to administrative and legislative action.

The provisions of the bill estimated to result in administrative *cost savings* are as follows:
- Sales Tax Returns;
- Electronic of Certain Sales Tax Returns;
- Earned Income Tax Credit;
- Tax Penalties.

The following provisions could result in an *increase* in administrative costs to the DOR.
- Sales Tax exemption for media production;
- Repeal of tax preparer electronic filing requirements;
- 529 Education Savings Plan;
- Income Tax Withholding;
- Tax Confidentiality;
- Utility Services;
- Mass Transit Funding;
- LOIT Distribution Information;
- New Market Development Credits;
- Transit Development Districts.

The remaining provisions of this bill, which were not mentioned above, are either indeterminable or have no fiscal impact. A more detailed discussion of the bill's provisions follows.

Sales Tax Returns - It is estimated that the DOR will realize an administrative cost savings due to the change in the bill requiring all retailers with a Sales Tax liability under $1,000 in the previous calendar year to file returns annually. The administrative cost savings to the DOR is estimated to be from the decreased data entry and returns processing costs for annual returns versus monthly, quarterly, or semi-annual returns. It is estimated that over 25,000 retailers will be required to file annual returns rather than semi-annual, quarterly, or monthly returns.

The DOR reports that there are currently 60,000 returns filed on an annual bases, under 50 filed on a semi-annual basis, and approximately 25,000 filed on a quarterly basis. All of these retailers have less than $900 of Sales Tax liability per calendar year. The bill would require all of these retailers to file on an annual basis. The bill would also require retailers with Sales Tax liability in the previous calendar year between $900 and $1,000 to file annually rather than monthly as required under current law. The number of files with liability between $900 and $1,000 per year is unknown.

Repeal of Tax Preparer Electronic Filing Requirements - This bill repeals the provision in current law requiring a professional tax preparer that files more than 100 returns in a calendar year to file these returns in electronic format. It is estimated the repeal of this provision will increase in administrative costs for the DOR. The amount of any increase is indeterminable, and will ultimately be determined by the number of professional tax preparers that choose not to file returns electronically after the repeal of this requirement.

Income Tax Withholding - This bill requires wage withholding payments and estimated tax payments for nonresident aliens to be computed based on the application of not more than one personal exclusion. It requires employers to report to the DOR the amount of withholdings attributable to local income taxes each time the employer remits to the department the tax that is withheld. It also requires an individual filing an estimated tax return to designate the portion of the estimated tax payment that represents state income tax liability and the portion of the estimated tax payment that represents local income tax liability. The bill provides that if an individual requests the payor of a distribution to withhold taxes from the distribution, the individual must designate the portion of the withheld amount that represents state income tax liability and the portion of the withheld amount that represents local income tax liability.

LOIT Distribution Information - The bill requires the DOR and the OMB to develop a quarterly report, beginning after December 31, 2010, that summarizes the amount of local option income taxes reported and processed for each county. The report is required to be made available to county auditors within 45 days after the end of the calendar quarter.

The bill also requires OMB to provide county councils with an information summary of the calculations used to determine the certified distribution. The summary of calculations must include the following:

> (1) The amount reported on individual income tax returns processed by the DOR during the previous fiscal year.
> (2) Adjustments for over distributions in prior years.
> (3) Adjustments for clerical or mathematical errors in prior years.
> (4) Adjustments for tax rate changes.
> (5) The amount of excess account balances to be distributed.

Transit Development Districts - This bill will increase administrative expenditures of the DOR. The DOR must determine the incremental amounts of Sales Tax collections that must be deposited in the Incremental Tax Financing Fund.

This bill will also increase the expenditures of the Indiana Department of Transportation (INDOT). The bill requires INDOT to administer the Regional Transportation Authority Formation Fund (RTAF Fund) and provide matching grants to entities wishing to establish a regional transportation authority. Any increase in costs will be offset by the provision of the bill allowing payment of these costs from the RTAF Fund.

Motor Vehicles - For the State Police, there will be a reduction in staff time associated with the inspection of the vehicles titled out of state. The impact is indeterminable. The funds affected are the state General Fund, the Motor Vehicle Highway Account, and the Motor Carrier Regulation Fund, all of which support the State Police.

Police Officers' and Firefighters' Pension and Disability Fund - The Public Employees' Retirement Fund (PERF), administrators of the 1977 Police and Fire Fund will incur administrative costs of an indeterminable amount. The fund affected is the PERF Administrative Fund.

Department of Natural Resources - The bill requires the DNR to equalize certain salaries of district foresters and natural science managers. "District forester" means any position on the state staffing table with a job code of "001LE2" and a description of "Forester Specialist 2". "Natural sciences manager" means any position on the state staffing table with a job code of "00ENS7" and a description of "Natural Sciences Manager E7".

As of February 22, 2008, there were no Natural Sciences Manager E7s on the staffing report. A Natural Science Manager is a PAT 1 position. Estimates below were based on increasing salaries for Forest Specialist 2s to the minimum for a PAT I, which was $38,694.

As of January 31, 2008, there were 26 Forest Specialist 2s. Of these 26, 5 did not meet the minimum salary limits as identified in the bill. Increasing these salaries (and certain benefits) to meet the minimum would result in an increase in expenditures by the DNR of around $13,000 in FY 2009 and $13,260 in FY 2010.

Fire Protection District Excess Property Tax Levy - Under this proposal, annual state PTRC and Homestead payments in CY 2009 would have increased by approximately$2.5 M. As PTRC spending limit for this year has already been exceeded, there is no actual increase. Subject to appropriation and assuming full funding of these payments in CY 2010, state PTRC and Homestead payments would be increased. The state is expected to spend approximately $2.4 M in CY 2010. In FY 2010 (partial payment), the expenditure would be approximately $1.2 M.

Property Tax Exemptions - Subject to appropriation and assuming full funding of these payments in CY 2010, state PTRC payments would be reduced. The amount of the reduction would depend on the amount of the exemption.

*Property Tax Background Information -*The state pays Property Tax Replacement Credits (PTRC) in the amount of 60% of school General Fund levies attributable to all property. The state also pays 20% of the portion of operating levies (including the remaining 40% of the school GF levy) that are attributable to real property and non-business personal property. Homestead credits are paid by the state in the amount of 20% of the net property tax due for qualifying funds on owner-occupied residences.

PTRC and Homestead credits are paid from the Property Tax Replacement Fund. In CY 2009, these payments cannot exceed $2,028.5 M (there is currently no limit for taxes payable in CY 2010 and after). Under current law, if these payments exceed this limit in CY 2009, PTRC rates for all taxpayers would be proportionately reduced in order to keep total payments within this limit. In CY 2009, projections indicate that the $2,028.5 M spending limit would be exceeded. As a result, under this proposal, there would be no PTRC and Homestead credit savings in CY 2009.

IPFW Student Services and Library Complex - This bill provides bonding authority to Indiana University, Purdue University at Fort Wayne to issue up to $16 M in bonds for a student services and library complex. This is in addition to any other previous bonding authority granted to the university for this project. Since this bonding authority is not eligible for fee replacement, there is no fiscal impact to the state. (The state authorized $24 M in the 2007 budget that was eligible for fee replacement.)

Explanation of State Revenues: (Revised) *Summary of Expenditures* - The overall impact on state revenues is indeterminable. More details are included below.

The provisions of the bill estimated to result in a *decrease* in state revenues are as follows:
- Motion Picture Production Expenditure Sales Tax Exemptions;
- New Market Development Credits;
- Utility Services;
- Mass Transit Funding.

The following provisions could result in an *increase* in state revenues are as follows:
- Earned Income Tax Credit;
- Tax Penalties;
- Motor Vehicle provisions.

The remaining provisions of this bill, which were not mentioned above, are either indeterminable or have no fiscal impact. A more detailed discussion of the bill's provisions follows.

Sales Tax Exemption for Motion Picture Production Expenditures - This bill will decrease Sales Tax collections by between $280,000 and $375,000 in FY 2009, and between $675,000 and $900,000 in FY 2010. This bill extends the Sales Tax exemption for property purchased for use in motion picture productions from purchases made before January 1, 2009, to purchases made before January 1, 2011. The amount of the decrease in Sales Tax collections could be less than the amount stated above due to the provision in current law that disallows a taxpayer from using this exemption and receiving the Media Production Expenditure tax credit for the same expenditures.

Sales Tax on Flying Lessons - According to DOR, this provision codifies how these transactions are currently treated during the administration of the Sales Tax. Therefore, it is estimated that there will be no fiscal impact due to this provision.

New Markets Development Credit - This bill establishes the Community Investment Tax Credit allowing development entities certified by the IEDC to receive tax credits for equity investment that qualifies for the federal New Markets Tax Credit (NMTC) and is approved by the IEDC. The credit may be taken against the taxpayer's Adjusted Gross Income (AGI) Tax liability, Financial Institutions Tax liability, or Insurance Premiums Tax liability. The amount of credits that could potentially be claimed each year is indeterminable and depends on development entities qualifying for the federal NMTC and being certified for state tax liability credits by the IEDC. The credit applies only to qualified equity investment made after December 31, 2007, and can only be claimed beginning in tax year 2008. As a result of these circumstances, any fiscal impact from the credits likely would not arise before FY 2009.

Background: Since 2002, allocations of creditable investment under the NMTC have been awarded by the U.S. Department of Treasury. These allocations represent the amount of investments that were designated as qualifying for the NMTC. In 2006, $321 M was allocated to three organizations: HEDC New Markets, Inc.; PNC Community Partners, Inc.; and National City New Market Fund, Inc. At the time of this analysis, National City New Market Fund, Inc. had invested $14 M into Indiana. The remaining two organizations had not invested any portion of their allocation into Indiana.

In 2007, $100 M was allocated to Key Community Development New Markets (KCDNM), headquartered in Cleveland, Ohio serving Indiana among other states nationwide. KCDNM intends to offer subsidized financing for small business loans; and commercial real estate debt and equity for retail centers, single-family housing, industrial developments, small offices, community facilities and mixed-use buildings. With its NMTC allocation, KCDNM will be able to offer interest rates up to 400 basis points below-market, and also offer more flexible credit terms including higher-than-normal-loan-to-value ratios, lower origination fees, longer amortization periods and lower debt service coverage ratios.

Income Tax Withholding - The bill requires wage withholding payments and estimated tax payments for nonresident aliens to be computed based on the application of not more than one personal exclusion. The increase or decrease in exemptions claimed on nonresident aliens' final tax returns, and the associated dollar amount, is unknown. The fiscal issue is that of compliance and timing. State revenues may increase an indeterminable amount during the tax year due to withholding payments and estimated tax payments for nonresident aliens being computed based on the application of only one exemption. However, should nonresident aliens have more than one legitimate personal exemption, they may still be claimed on the taxpayer's final return. The result could be a potentially insignificant net impact on state revenue.

A scenario where state revenue may increase an indeterminable amount is if nonresident aliens do not file a final tax return or they are currently claiming more exemptions than allowed. This bill may create an incentive for compliance in filing a final tax return in order to be eligible for a tax refund. Since the new withholding requirement is effective beginning in tax year 2009, any fiscal impact would begin in FY 2010.

The new reporting requirements placed on the DOR and the OMB in addition to the new designation placed on taxpayers in regard to the amount of state income tax liability and local income tax liability withheld as a portion of total withholdings would have no fiscal impact on state revenues.

Earned Income Tax Credit - This bill reduces the state earned income tax credit for partial year nonresidents who have taxable income in other states, thereby increasing their state taxable income and state taxes paid. It requires that a nonresident taxpayer multiply the value of the credit under current law by the percentage of their income taxable in Indiana. In 2005, 18,745 partial year nonresidents claimed the Earned Income Tax Credit on their tax returns. The average credit was approximately $112 with a maximum credit of $264, totaling $2.1 M. From 2000 to 2005, the total Earned Income Tax Credits claimed increased 25% on average annually. Similarly, the number of filers claiming the credit increased by 35% for the same time period.

Cigarette Tax - This bill requires a cigarette distributor to be current in all listed taxes before a distributor's license may be issued or renewed. According to DOR there are 120 cigarette distributors currently licensed in Indiana. This provision will only have an impact to the extent that more taxes are collected due to this license issuance and renewal requirement. The amount of any impact is indeterminable.

Tax Penalties -This bill imposes a penalty on certain individuals for failure to file an income tax return, thereby increasing state revenues by an indeterminable amount. It provides that the penalties for bad checks issued to pay listed taxes also apply to payments made by credit card and electronic payments. This bill imposes a penalty on certain individuals for failure to file an income tax return. It provides that the penalties for bad checks issued to pay listed taxes also apply to payments made by credit card, debit card, and electronic payments.

Utility Services - The provisions of this bill relating to the wholesale sale of utility services will cause an indeterminable decrease in state URT collections. The amount of the impact is indeterminable and will ultimately depend upon the number of utilities that are selling natural gas to a buyer that is consuming the natural gas in the direct production of electricity to be sold by the buyer of the natural gas.

Motor Vehicles - Requiring that a person who engages in the business of selling at least 12 off-road vehicles to the general public each year for delivery in Indiana must secure a dealer's license for the sale of motor vehicles from the Secretary of State and repealing an exemption for sellers of off-road vehicles will mean additional revenue to the state of an indeterminable amount. The following table shows the various dealer licenses issued and the corresponding fee charged.

License	Fee
Manufacturers	\$35, plus \$10 for each factory branch in the state
Distributors	\$35, plus \$30 for the first location and \$10 for each location not immediately adjacent to it.
Dealer or Auctioneer	\$30 for its first location and \$10 for each location not immediately adjacent to it.
Factory representatives, distributors' representatives, wholesaler dealers, transfer dealers and brokers	\$20; Offsite license is \$25

Distribution of the funds is as follows:

Motor Vehicle Odometer Fund, then redistributed to
the Motor Vehicle Highway Account- 40%
Bureau of Motor Vehicles - 30%
State Police - 20%
Attorney General- 10%

Revenue for FY 2007 amounted to \$581,000.

Transit Development Districts - This bill will decrease state revenue from the Sales Tax. The amount of the decrease is indeterminable and will ultimately depend upon the number of transit development districts established under the bill that would be entitled to receive incremental portions of Sales Tax collections. The bill provides that the transit development district statute only applies to cities, towns, and counties located within the boundaries of a regional transit authority. The bill defines a regional transit authority as either: (1) a regional transportation authority; or (2) the Northwest Indiana Regional Development Authority. There is no limit to the number of districts that may be created within a regional transit authority. INDOT reports that there are only two entities that would currently qualify as regional transit authorities. Under current law, a regional transportation authority may be established by the fiscal body of any county or municipality, but the statute provides that only one transportation authority may be established within an area designated as a transportation planning district by INDOT. According to INDOT there are 14 regional planning districts.

The bill provides that no transit development district may receive more than $5 M in deposits over the life of the district. The calculation of the deposits is as follows:

For the Sales Tax, the deposit is result of:

(1) the total amount of Sales taxes remitted by businesses operating in the transit development district during a state fiscal year; minus

(2) the total amount of Sales taxes remitted by businesses operating in the territory comprising a transit development district during the full state fiscal year that precedes the date on which the transit development district was established.

The bill also requires the deposit to be adjusted for the amount of growth of the Sales Tax based on the Consumer Price Index that would be expected to occur without the presence of a transit development district.

The bill also establishes the RTAF Fund to be administered by INDOT and used to provide 20% matching grants to entities for the costs incurred in forming a regional transportation authority. The bill requires regional transit authorities that receive an appropriation from a transit development district to deposit 25% of each appropriation in the RTAF Fund. Once the aggregate total of all deposits reaches $1 M the regional transit authorities will no longer be required to make the 25% deposit. The amount of revenue that will be deposited in the RTAF is indeterminable.

Economic Development Project District in Warrick County - This bill authorizes Warrick County to establish an Economic Development Project District. It provides that the Indiana Economic Development Corporation performs the duties of the State Board of Finance when establishing an Economic Development Project District for the county. The bill increases the term of bonds and leases for an economic development district from 20 to 25 years. The bill stipulates the various district project costs that may be paid for by the project fund. The exact fiscal impact of this provision is indeterminable.

Valuation Adjustments for personal property tax abatements - The state levies a small tax rate on property for State Fair and State Forestry. Any change in the amount granted for abatements would change the amount received from this tax. If there is an increase in the tax base because of this bill, the State Fair and State Forestry funds would receive increased revenues.

Property Tax Exemptions - The state levies a small tax rate on property for State Fair and State Forestry. Any reduction in the tax base would reduce the property tax revenue for these two funds. The amount of the decrease would depend on the amount of the reduction.

Explanation of Local Expenditures: (Revised) *Motor Vehicles* - For local law enforcement agencies, there will be a reduction in staff time associated with the inspection of the vehicles titled out of state. The impact is indeterminable.

Transit Development Districts - There could be an increase in expenditures for the county treasurer of a county containing a transit development district. The amount of any increase is indeterminable.

Police Officers' and Firefighters' Pension and Disability Fund - The fiscal impact to any city or town for the awarding of up to 6 years of military service, provided the service qualifies for such an award, would depend on the specific amount of service and the age of each participant at the time of purchase.

As an illustration, in a recent service purchase for an entity joining the 1977 Police and Fire Fund, the cost to the entity was approximately 23% of the certified first class salary for each year of service being purchased. Therefore if a participant wished to have 6 years of military service awarded as service in the 1977 Police and Fire Fund (and the military service was eligible for such an award) and the certified first class salary was $40,000, then the fiscal impact is estimated to be $55,200 (6 years times $40,000 times 23%). This $55,200 could be amortized over a 10 year period.

The participant may purchase an additional 2 years of military service (if eligible), but the participant must purchase this service at actuarial cost so there is no fiscal impact to the employer.

The funds affected are the police and fire funds of the cities and towns. The principal sources of revenue to local units for contributions into these funds may include the following: (1) general property taxes; (2) Financial Institutions Tax; (3) Auto and Aircraft Excise Tax; (4) Property Tax Replacement Credits; (5) County Option Income Tax; (6) Commercial Vehicle Excise Tax; (7) liquor excise and liquor gallonage distributions; and (8) Wagering Taxes. Other revenue sources include licenses and permits, charges for services, fines and forfeitures, and interest on investments.

Also, cities and towns with a population of over 5,000 may use up to 10% of their Motor Vehicle Highway Account distributions for law enforcement purposes. Cities and towns under 5,000 can use up to 15%.

Fire Protection District Excess Property Tax Levy - Local Homestead credits are expected to increase by approximately $93,200 in CY 2009 and approximately $94,000 in CY 2010.

The potential increase in homestead credits under this proposal would:

1. Increase the cost of COIT-funded homestead credits, thereby reducing the amount of COIT that would be available as certified shares;
2. Increase the cost of CEDIT-funded homestead credits which could result in an increased CEDIT tax rate; and
3. Reduce the percentage of net levies that would be replaced by the new “LOIT #2" credits.

Background: As of January 1, 2008, 52 counties provide additional Homestead credits that are paid with proceeds from a combination of county adjusted income taxes (CAGIT), county option income taxes (COIT), and county economic development income taxes (CEDIT). This includes traditional COIT-funded homestead credits, CEDIT-funded credits to mitigate inventory shifts, and credits from the new LOIT options available beginning in 2008.

Explanation of Local Revenues: (Revised) *Motor Vehicles* -The Indiana Sheriffs' Association reports that there may be a few sheriffs in the state who charge for the inspection, therefore resulting in the potential loss of revenue of an indeterminable amount.

Income Tax - Some of this bill’s provisions may impact taxable income. The extent to which counties imposing local option income taxes may experience an increase or decrease in revenue is indeterminable.

Transit Development Districts - All Sales Tax collections payable to a transit development district are required to be deposited in the transit development district tax increment fund. Money deposited in the transit development district tax increment fund is required to be appropriated to the regional transit authority under which the transit development district was created. The money is then required to be used for the purposes of the regional transit authority authorized by the statute creating the authority.

IndyGo COIT Allocation - The bill requires 3% of Marion County's COIT certified distribution to be distributed to IndyGo (the Indianapolis Public Transportation Corporation) beginning July 1, 2008. The distribution to IndyGo would total about $2.7 M during the second half of CY 2008, and is estimated to total about $5.5 M in CY 2009. The amounts distributed to IndyGo would be shifted from COIT certified shares allocated to civil taxing units (not schools) in Marion County. It is estimated that COIT certified distribution to Marion County, including the 3% share for IndyGo, could grow by about 2.8% annually under the 1% COIT rate.

Under current law, Marion County COIT distributive shares are allocated to civil taxing units under a formula that applies only in Marion County. The current formula allocates a share of COIT revenue to each township, each of the four excluded cities, and a combined Indianapolis/Marion County. The included towns, libraries, and special taxing units do not directly receive a share of the revenue. The COIT revenue is allocated to receiving units via a formula that is largely based on the maximum levies of those units. The maximum levy used in the formula for Indianapolis/Marion County is equal to the sum of the maximum levies of the city and county, plus all of the civil taxing units that do not receive a direct share.

Current law also provides that the county fiscal body in Marion County may elect to provide revenue to IndyGo from the Marion County COIT certified distribution.

Fire Protection District Excess Property Tax Levy - This bill authorizes a fire protection district to appeal to the Department of Local Government Finance (DLGF) to increase its maximum property tax levy for taxes payable in 2009 if its taxable assessed value in 2004 was at least 1.5 times the equivalent assessed value in 1999. The maximum levy increase would be $212,500. To qualify for this increase an eligible district must file its appeal before September 20, 2008. The district has to stipulate that it needs the additional funding to support its governmental functions. If the appeal is approved, the district would be able to include this additional funding in its 2009 levy when computing its maximum levy for taxes payable in CY 2010.

Estimates from the local government database indicate that 42 out of 50 fire districts would qualify for this increase. Assuming that each fire district levies the maximum allowed, this would increase the total levy by approximately $9 M. The increase in the tax rate for individual districts would range from a minimum of $0.0001 to a maximum of $0.0666 in CY 2009; in CY 2010 the range would be from $0.0001 to $0.0641.

Valuation Adjustments for personal property tax abatements - Under current law, new manufacturing, research development, logistic equipment or information technology may qualify for property tax abatements if the abatement was approved after June 30, 2000. The abatement is equal to the property's AV multiplied by a percentage according to a schedule and are available for up to ten years. For property taxes payable in 2009 and after this bill awards the deduction for these types of equipment only if the abatement was approved after CY 2005. Under this proposal, it is possible that some previously eligible equipment may potentially become ineligible for abatements.

The specific amount of AV involved is indeterminable. The decrease in the eligibility period could result in an earlier addition to the tax rolls of some property that would have previously qualified for an investment deduction if the eligibility criteria had remained unchanged. This addition to the tax base could help spread the property tax burden and could possibly reduce some tax rates. Total revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be increased by the product of the fund rate applicable to that fund multiplied by the amount that would have been deducted.

Excessive Levy Appeals - Under current law, a civil taxing unit or school corporation which is projected to have insufficient revenue for next year's budget may file an excessive levy appeal with the local government tax control board. If the reason for the shortfall is an error in assessed value estimates, the deadline for the appeal is December 31 of the current year. For taxes first due and payable in 2008, this bill extends the filing deadline for the appeal from December 31, 2007 to May 1, 2008. If the appeal is approved, the deadline for the department of local government finance (DLGF) to certify budgets, tax rates and tax levies, for the county to mail tax statements and for taxpayers to pay their taxes is waived.

If tax payments are delayed, this provision could have a negative impact on the operating budgets of some local taxing units and school corporations. Some units may have to borrow funds to meet current obligations resulting in increased expenses for interest payments. The severity of the impact would depend on how long tax payments are delayed. This provision expires January 1, 2009.

Property Tax Exemptions - Under current law, a non-profit corporation, which after CY 2000 failed to file on time for a property tax exemption, may be reimbursed for any property taxes it paid if it is otherwise eligible to receive the exemption. This bill extends this provision to a nonprofit limited liability company. The property owner has to file for the exemption with the county assessor. The county auditor would refund without interest any taxes paid.

Assuming the exemption would be approved, the fiscal impact of this bill on local taxing units would depend on when it is approved and when budgets, tax levies, and the tax rates of the taxing units are finalized. If the exemption is approved before property tax levy and tax rates are finalized, then there would not be any loss of revenue as the tax would shift to other taxpayers in the form of an increased tax rate. On the other hand, if the exemption is approved after tax rates have been calculated or if it applies to multiple years, then there could possibly be negative impact on local revenues depending on the size of the refund. Property tax refunds reduce current year revenues. This provision expires January 1 2009.

School Allocation Area Distribution of Certain LOIT Revenues - Current law authorizes counties to either initiate or increase a local option income tax (LOIT) to fund various obligations such as public safety, emergency medical services, pension payments, and property tax relief. This bill authorizes counties to establish a school allocation area account in each school district. Funds from the increase in the LOIT would be allocated to each account based on the ratio of the total assessed value of all qualified residential property located within each school allocation area to the total assessed value of all qualified residential property located in the county.

The bill authorizes the county council to use the resulting revenues to replace all or part of the property tax revenues that were foregone because of circuit breaker credits for property within the school allocation area. Any remaining revenues would be applied to reducing property taxes for qualified residential property. The county council, if it also wishes, may also use all of the LOIT funds for property tax relief.

The fiscal impact of this proposal is indeterminable.

State Agencies Affected: DOR; OMB; Recipients of Motor Vehicle Highway Account distributions (BMV, State Police, Department of Transportation; State DOR); Treasurer of State; Bureau of Motor Vehicles; State Police; Attorney General; Treasurer of State; DOR; State Fair Board; DNR Division of Forestry, DLGF; DNR.

Local Agencies Affected: Recipients of Motor Vehicle Highway Account distributions; local law enforcement agencies; cities; towns; and counties; County Auditors; County Assessors; County Councils; PTABOA; All Taxing Units

Information Sources: OFMA Income Tax Databases, 2000-2005; OFMA Property Tax Database; Local Government Database; Tom Conley, DOR, 317-232-2107; Bureau of Labor Statistics; Urban Institute; Internal Revenue Service; U.S. Census; A.D. Reeves, Director of Vehicle Services, Secretary of State, 317-591-5300; Doug Gosser, Indiana Sheriffs' Association, 317-356-3633; Charlene Parrish, Indiana Department of Transportation, 317-232-5117; Doug Todd of McCready & Keene, Inc., actuaries for PERF and the Police and Fire Funds, 317 576-1508; Andrea Unzicker, General Counsel for PERF, 317-233-4132; Internal Revenue Service, *Statistics of Income: Sole Proprietorship Returns* (2000 to 2005); 2002 Economic Census; Charlene Parrish, Indiana Department of Transportation, 317-232-5117.

Fiscal Analyst: Hannah Mongiat (Income Tax), 317-232-9867; Adam Brown (Sales Tax), 317-232-9854; James Sperlik (Pensions and Labor), 317-232-9866; David Lusan (Property Tax), 317-232-9592; Bernadette Bartlett (Environmental Policy), 317-232-9586.